ANNUAL REPORT 2001

Itautec Philco

Annual Report 2001

Itautec Philco

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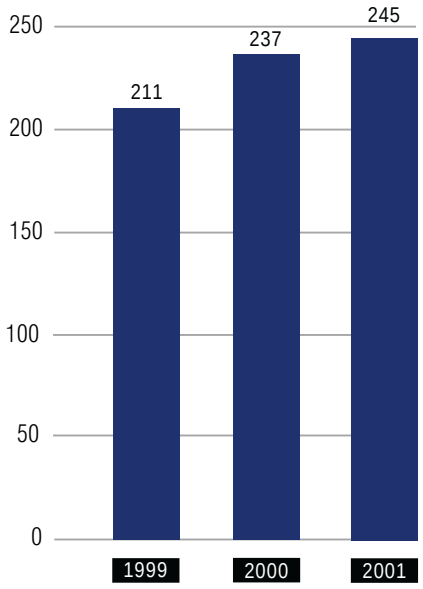
Financial
Highlights

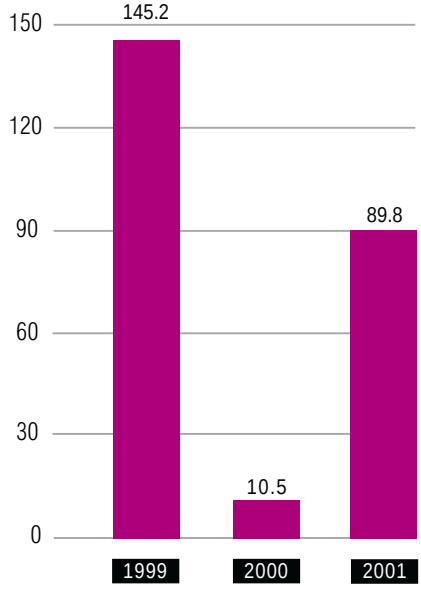
NET INCOME FROM SALES AND SERVICES PER EMPLOYEE

R$ thousands (Consolidated)



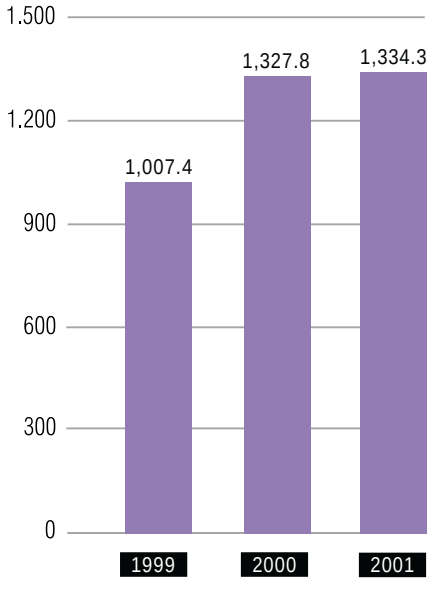
OPERACIONAL CASH FLOW

R$ millions (Consolidated)



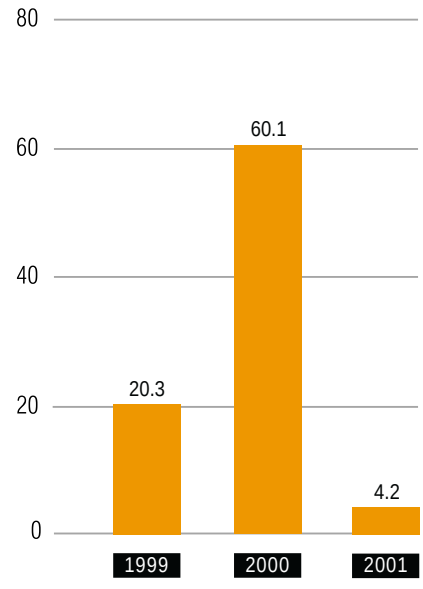
EVOLUATION IN GROSS INCOME FROM SALES AND SERVICES

R$ millions (Consolidated)



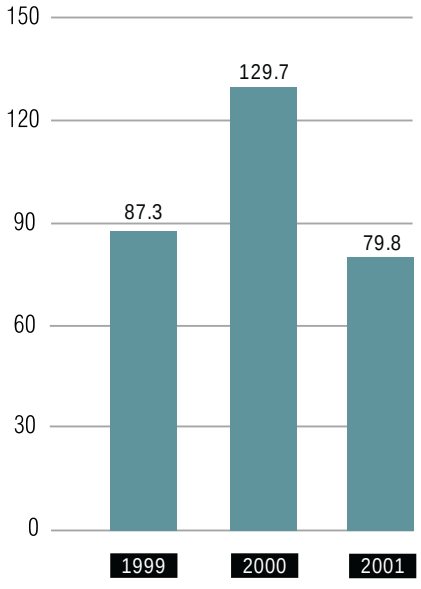
EVOLUTION IN NET PROFIT

R$ millions (Consolidated)



EBITDA

R$ millions (Consolidated)



Business
Areas

ITAUTEC
Information Technology
Automation

ITAUTEC
Internet
Security

SERVICES
Infrastruture
Technical Assistance Telesuporte

PHILCO
Consumer Products
TV Audio DVD Video

ITAUCOM
Semiconductors
Printed Circuit Boards

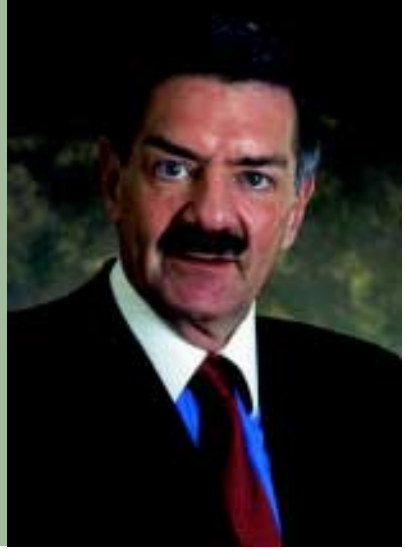
Tatuapé Plant, city of São Paulo, SP

Itautec Philco

Company

Vision

Itautec Philco's mission is to compete within a solid and legal framework in the Consumer Products, Information Technology, Components, Services and the Internet markets. This endeavor is conducted by means of exploiting the company's competitive advantages and by obtaining world-class operational and technological efficiency. Prominent among the values which guide the company's mission, is the on-going development of managerial skills – the springboard for a sustained improvement in the quality of customer service – combined with simplicity, speed of response and cost savings in line with the horizontal view of the business areas. All this translates into the continual improvement in quality of the services and products together with the company's commitment to customer satisfaction.



Paulo Setubal
President

Message from the President

Itautec Philco and its subsidiaries operate through the intermediary of four divisions: Itautec, Itautec.com.Serviços, Philco and Itaucom. These divisions are responsible for the production and the sale of the following products: equipment for the IT and banking/ commercial automation areas, software applications, network projects, basic infrastructure services, installation and technical assistance, Internet related projects, consumer electronics, semiconductors and circuit boards.

Since our foundation, we have been a company aligned with all that is most advanced, modern and innovative in technology both in Brazil and also worldwide.

In 2001, three factors influenced Itautec Philco's performance:

- electric energy rationing followed by a deceleration in the Brazilian economy,
- the institutional crisis in Argentina, and
- the sharp fall in business confidence after the events of September in the United States.

Under such turbulent conditions as these, Itautec Philco took some important precautionary measures to ensure a strict focus on strategic areas, namely the trimming of inventories, a headcount reduction in the light of the prevailing business conditions and changes in internal IT systems.

Such measures, while both correct and necessary, were successful in only cushioning the impact of events during the year. The company posted a net profit in 2001 of R$ 4.2 million, clearly contrasting strongly with its 2000 earnings.

In spite of the difficult trading conditions, with the Real depreciating against the dollar by 18.7% and the annual Selic interest rate closing the year at 19%, Itautec Philco maintained its capital expenditure program in infrastructure, research and development. As it does every year, the company launched a series of new products and services in its chosen markets.

Gross income from sales and services was R$ 1,334.3 million, broken down as follows: Itautec (54%), Philco (23%), Itautec.com Serviços (14%) and Itaucom (9%). The company continued to adopt the criterion of appropriating the full value of non-performing receivables due from customers in concordata (Chapter 11) and to hedge all its foreign currency liabilities.

The company reported an accumulated operational cash flow in 2001 of R$ 89.8 million, significantly higher than the figure of R$ 10.4 million in 2000. Accumulated 2001 EBITDA was R$ 79.8 million.

At the end of 2000, the BNDES (Banco Nacional de Desenvolvimento Social) approved financing of R$ 103.7 million for a capital expenditures program in new products and technologies, thus providing the company with the possibility of lengthening its maturity profile. During the course of 2001, R$ 91.1 million of the BNDES line was drawn down, the equivalent of 85% of the approved amount.

Itautec's Resources Investment Plan (PAR) amounted to a total of R$ 148.9 million, distributed as follows: R$ 44.6 million in technological development and new products, R$ 44.4 million in industrial automation and modernization of the plants, R$ 38.2 million in equipment for customer leasing, and R$ 21.7 million in promotion and advertising.

Itautec posted gross income from sales and services of R$ 728.3 million, a year-over-year growth of 9.7%.

At Itautec.com Serviços, gross income from sales was R$ 186.8 million, 16.0% higher than reported in 2000 due principally to increased product volume.

Philco registered R$ 303.7 million in gross income from sales, 6.7% down year-over-year. This result reflects a market slowdown in demand for electrical and electronic goods, particularly in the color TV segment, which fell away by 12% in relation to 2000.

of the Executive Board

At Itaucom, gross income from sales was R$ 115.5 million in 2001, a fall of 34.8% in relation to 2000, principally due to the 56% slump in international prices for memory modules and the lack-luster electrical/ electronic consumer durables' and telecommunications' markets, which adversely impacted the demand for printed circuit boards.

Every year, Itautec Philco, through its divisions, reiterates its vocation for innovation by creating, developing and supplying the most advanced goods that technology can produce to its large and important clients throughout Brazil and the world.

By combining state-of-the-art technology and sophisticated design, the multimedia WebWay terminal won the IF Design Award – among the most prestigious awards in the world for industrial design.

Technology

In spite of a less than propitious business climate, Itautec Philco maintained its capital expenditures program, launching new products and services.

By combining state-of-the-art technology with sophisticated design, the multimedia WebWay terminal won the IF Design Award (Communication Entertainment category) – among the most prestigious awards in the world for industrial design and presented on the occasion of the International Design Forum in Hanover. However, this was not the only award received by Itautec Philco in 2001. The InfoWay Note Notebook won PC World magazine's "Best Choice" award and InfoExame magazine's Info Choice award. Readers of the latter magazine voted the Infoway Torre Grafite the "Best Desktop Computer". In the computer category, the Itautec name ranked among the companies in the sector with the highest consumer recall scores, receiving the "Top of Mind" award from the Folha de São Paulo newspaper.

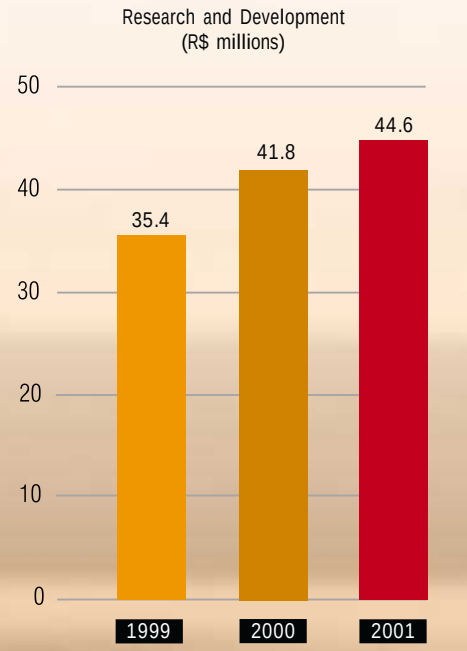
Besides investing in the upgrading of its current product and services range, Itautec is permanently seeking new technologies to keep it among the sector's front-runners.

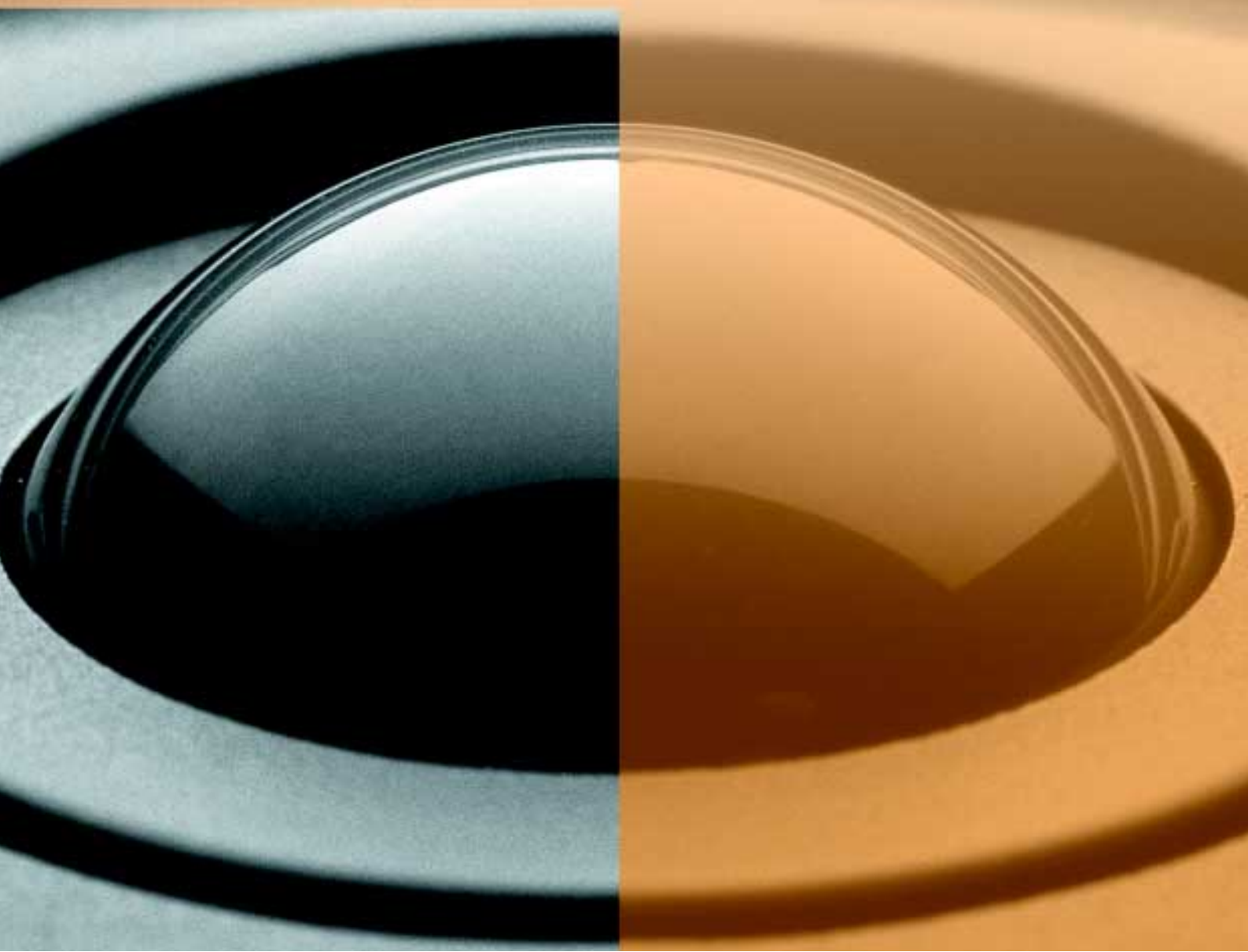
For example, Itautec has developed the High Performance Processor – PAD – a super computer using parallel multiprocessing technology – with the support of Finep and in partnership with the University of São Paulo. In partnership with the Industrial Engineering Faculty (FEI), the company is working on a combination of hard – and software solutions, which constitute the basis for an intelligent home entertainment and security system.

Philco operates with world standard technological know-how, receiving the Energy Star Seal in 2001, recognition of efficient energy use in the company's goods, and Federal Communication Commission (FCC) certification approving the electromagnetic and radiation emissions of the electrical circuits in its products.

With its focus on technological investments, in 2001, Itaucom began production of SDRAM DDR memories, an architecture which should dominate the next generation of memories.

INVESTMENTS IN R&D





Itautec launched the new InfoWay 2 GHz Pentium® 4 processor simultaneously with Intel®'s worldwide launch.

Information

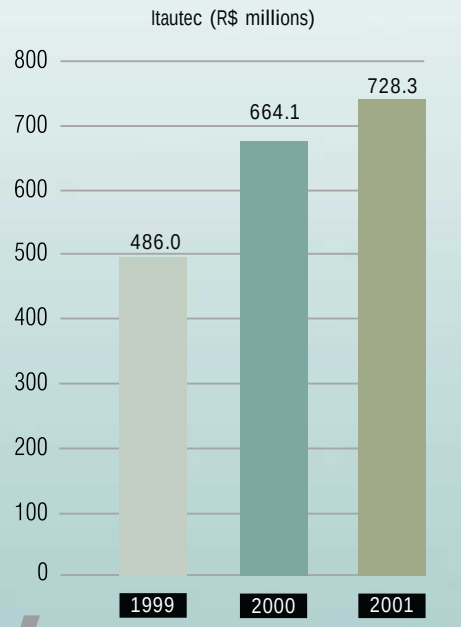
Itautec

Based on IDC (International Data Corporation) data, Itautec was ranked first in the sales of microcomputers for the corporate market in 2001. Itautec competes successfully with other domestic and international manufacturers based on its advantages of quality, innovation and the adaptability of its hardware to client requirements. In line with its policy of using state-of-the-art technology, Itautec was one of the manufacturers involved in the worldwide launch of the Intel® Pentium 4® processor in the United States. The company also began the local manufacture of a comprehensive line of notebooks, which reported a strong surge in sales thanks largely to excellent price/performance conditions and the ability to tailor-make the equipment according to the individual needs of the user.

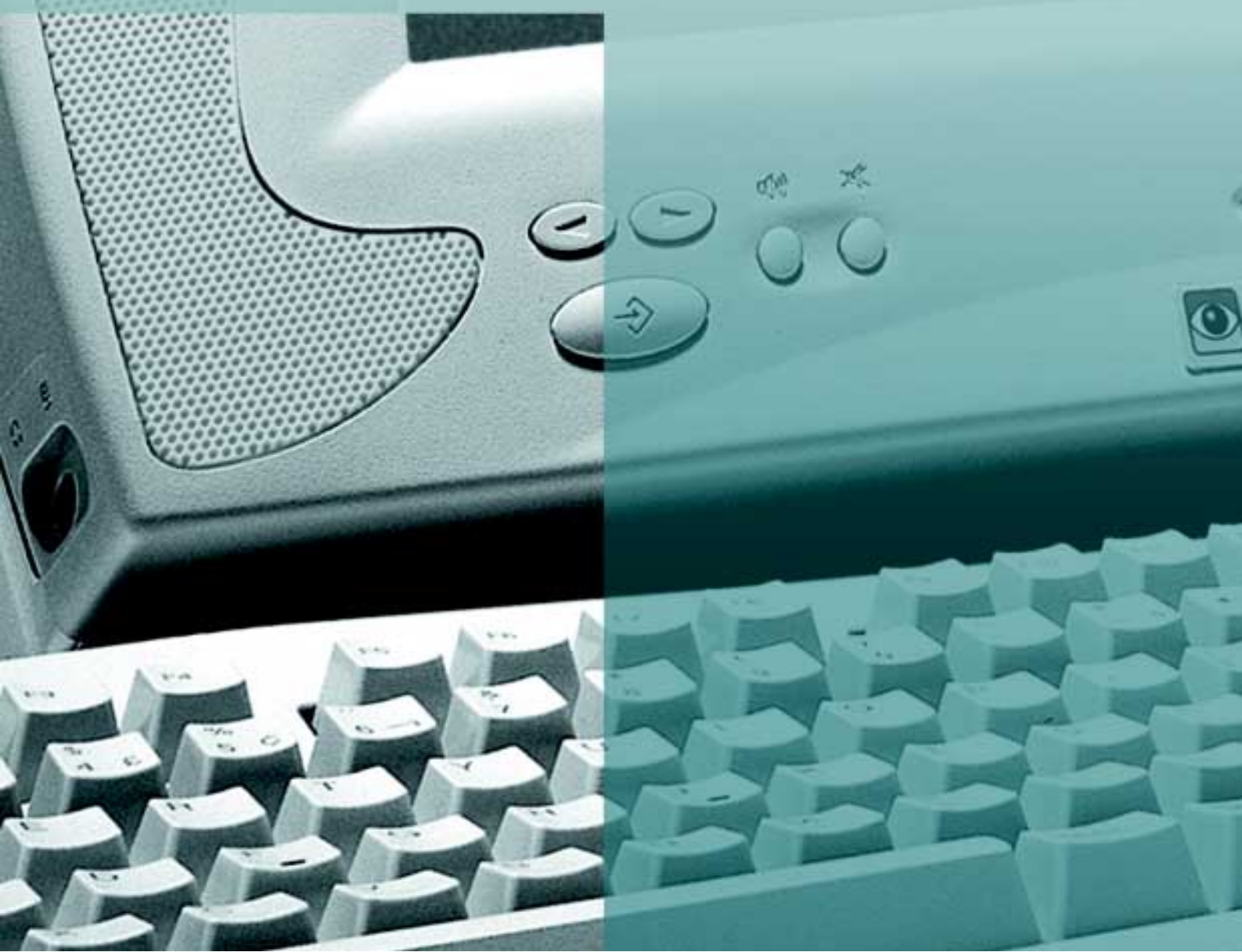
During the year, Itautec also increased its market share for servers. With the launch of the Infoserver line High Performance Processor (PAD), the company was the leader among its principal competitors in offering heavy-duty solutions with the best cost/performance relationship in the market.

As part of its philosophy of continuous upgrading, Itautec's microcomputer and server plant has seen substantial investment designed to assure not only enhanced productivity but also an even greater degree of quality to its customers.

EVOLUTION OF GROSS INCOME FROM SALES AND SERVICES



Technology



Automation

ATM Voice

During the year, the company manufactured more than 10,000 self-service units of equipment, breaking successive monthly production records. Itautec's sales to the banking automation segment reported a 26% growth in relation to 2000.
For the first time, in December 2001, the company participated in the Bank Administration Institute (BAI), the largest trade fair in banking automation in the world.

New products were successfully launched, among which ATM Voice, self-service equipment operated on a voice-recognition basis and SIGA, a system for controlling customer lines in banking halls and designed to upgrade the quality of service provided.

The WebWay terminal has increased its market penetration, being used for several different purposes, such as public access to the Internet, personal banking information, public utility concessionaires and corporate human resource departments as well as for the issue of duplicate copies of documents.

In the commercial automation segment, Itautec also expanded and diversified its customer base with an increase of 20% in gross income from software sales and also strong growth in its overseas presence. During the year, we would make special mention of SCOPE, a banking correspondent software which can be installed by commercial automation users at points of sale for settling public utility bills and billing in general.

Screen using of the Auto-Manager Software

InfoWay Note Notebook

Road shows were held in eight major Brazilian cities and resulted in a 168% increase in the number of visits to the company's site as well as a significant growth in completed business transactions.

Internet

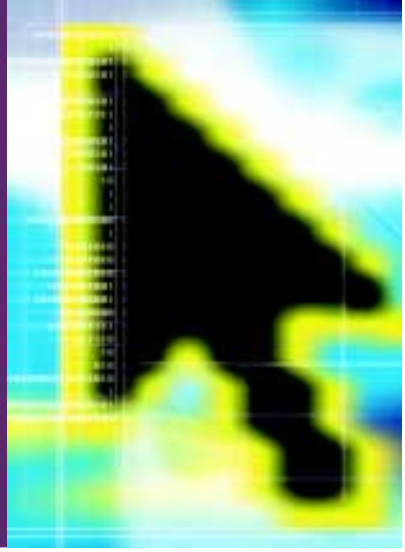
Itautec

The company concluded four important B2B (Business-to-Business) projects in 2001 thanks to the experience built up in previous years together with the growth in the electronic business market. Itautec also successfully consolidated its position in the market for the Payment Server software – an instrument for facilitating online payments of transactions.

As part of the campaign to further disseminate its brand name, Itautec co-sponsored road shows with Intel® and Pricewaterhouse Coopers in eight major Brazilian cities**.** The road shows were responsible for an increase of 168% in the number of visits to the company's site – specifically in the Internet-related area – as well as significant growth in completed business transactions.

Worthy of mention during 2001 was the Company's significant role in the Internet Security segment, including investments in training and certification of professional manpower to satisfy the demand from Itautec's clients for security projects.

INTERNET
Customer Base
100
80
60
40
20
0
09
22
81
1999
2000
2001



Security

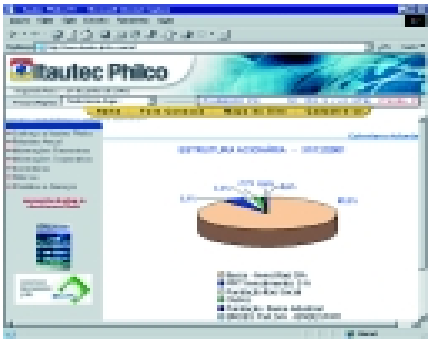
Itautec is using highly advanced formulation, implementation and maintenance systems for a range of Web security projects as well as for site development and hosting.

Several projects have been developed according to a methodological sequence known as Webway Security Planning Implementation and Monitoring. This is a system which encompasses all the necessary stages for a successful and conclusive strategy for Internet protection, including framework analysis, security architecture planning, functional specification, installation, monitoring, tests and start-up, documentation, training and on-going support.

Itautec also offers security consultancy through its Webway Security Planning system using teams of highly trained professionals as well as performing periodic re-evaluations for companies which already have defined and installed security systems.

Customers are able to access an extensive analysis of possible areas where their systems might be vulnerable using the Webway Vulnerability Assessment service. Today, there is no adequate e-Business solution, which does not involve an integrated, solid and reliable strategic structure such as that developed by Itautec.

Itautec Philco Site



Investor Relations Site

Offering a compete range of solutions, Itautec.com Serviços is the first in the sector to receive the ISO 9001 international quality certification for all its processes.

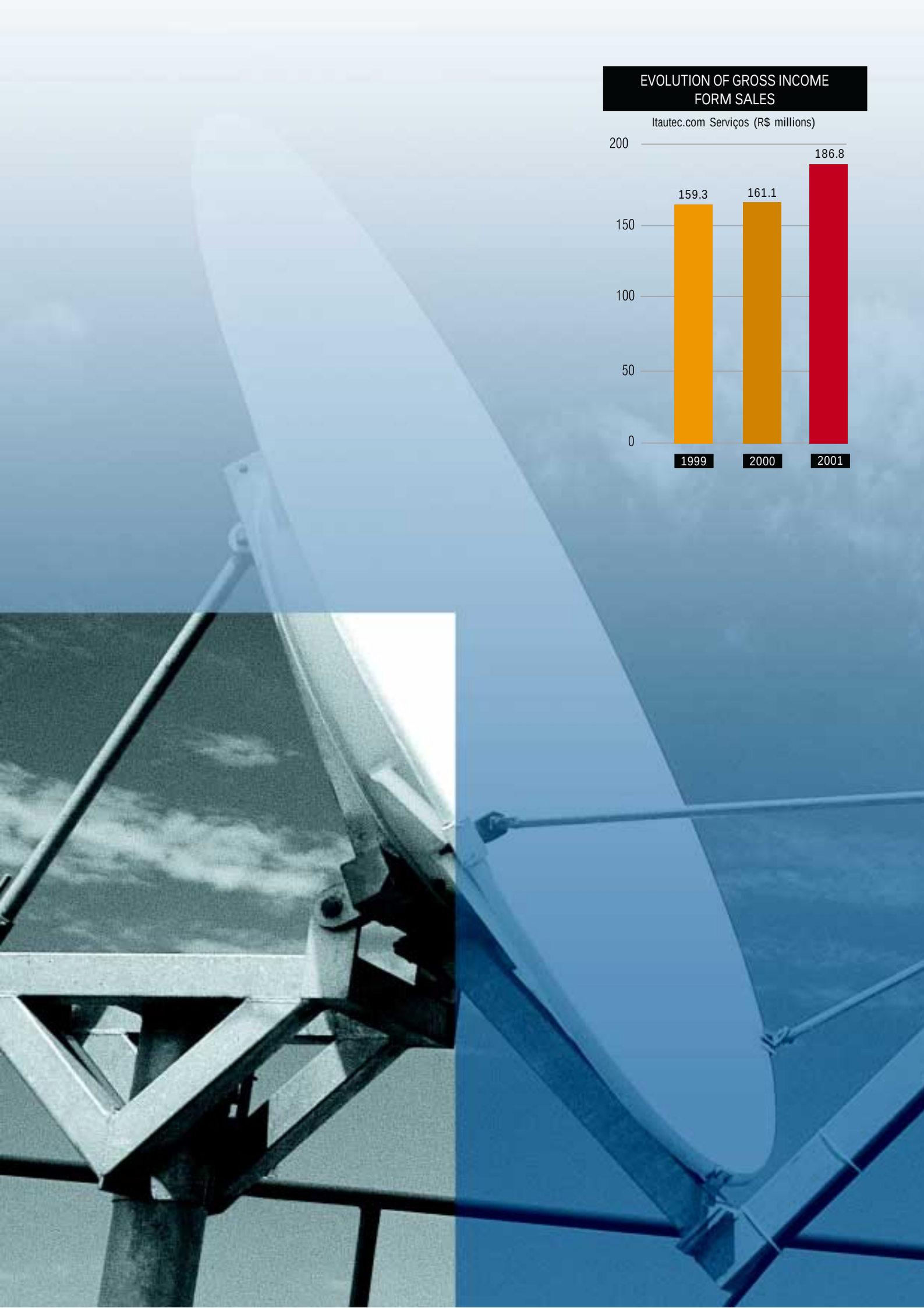
Infrastruture

Services

From September 2000 – when it was accredited by companies operating in the broadband market – to the end of 2001, Itautec.com. Serviços has installed more than one hundred thousand Internet connections in the city of São Paulo alone.

This company – the first in the sector to have all its processes ratified under ISO 9001 international certification – has annually increased its participation in the banking, commercial, building, industrial and office markets through the supply of more and more comprehensive solutions. By offering the necessary initial infrastructure for the installation of hard-and software and thereafter, the maintenance of these products and systems, most significantly, the company is able to supply its customers with integrated solutions. In this way, Itautec.com. Serviços operates as a single verticalized service supplier, providing trouble-free management and security to those companies and enterprises comprising its customer base.

For these same reasons, Itautec.com Serviços has also been chosen by major corporations for providing installation services and satellite communication equipment maintenance.


EVOLUTION OF GROSS INCOME
FORM SALES
Itautec.com Serviços (R$ millions)
200
150
100
50
0
159.3
161.1
186.8
1999
2000
2001

Technical

Speak to Itautec Site
Speak to Philco Site

Itautec Philco operates 36 customer service points throughout Brazil, between its branches and technical assistance services. Currently, it has its own establishments and resident technicians with the capability of servicing clients located in approximately 2,500 cities in the country. In many cases, customer service is provided within a maximum of two hours.

In addition to the direct customer points of service, Itautec.com Serviços has more than 100 professionals in its Teleservices area, comprising both Telesuporte and the Consumer Help Desk. Through a simple telephone call, via the Internet or e-mail, customers are able to clarify doubts as to Itautec Philco equipment or, alternatively, submit eventual complaints/suggestions for the improvement of products and services sold by the company.

In 2001 alone, this customer support infrastructure dealt with a monthly average of 120,000 events – 18% more than for the preceding year.

Fleet of technical support vehicles

Assistance
Telesuporte

Investments of R$ 6.5 million for the development of new products and the initial exports of televisions to the United States and Latin American countries.

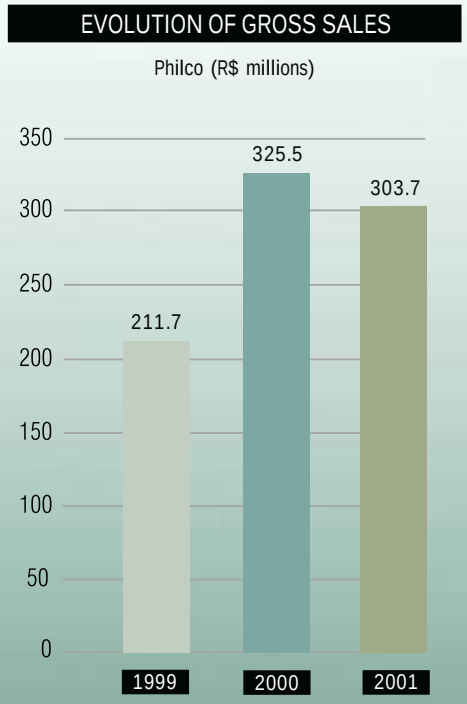
Consumer

Philco

Technological innovation has always been one of Philco's hallmarks. Over the last three years, the company has maintained its pioneering tradition by launching such products as the InfoWay range of TV sets with digitalized sound and vision characteristics and 100% flat screen technology, DVD players, which are MP3 compatible, and a karaoke feature among other innovations which have surprised the Brazilian market for electrical and electronic durables.

In 2001, Philco invested R$ 6.5 million in the development of new products in line with its objective to remain in the forefront of technology. First quarter 2001 sales were up 18% year-over-year. However, following the introduction of electric energy rationing, the market demand for electrical and electronic durables immediately slackened. With the weaker domestic market, the company looked to exports as an alternative for maintaining its growth trajectory, introducing a plan for bolstering sales to overseas markets. In only four months, approximately 40,000 TV's were exported to other Latin American countries and to the USA, underscoring the competitive advantages and the technological capability enjoyed by Itautec Philco's products – all of which are entirely developed in Brazil.

Products


EVOLUTION OF GROSS SALES
Philco (R$ millions)
350
300
250
200
150
100
50
0
211.7
325.5
303.7
1999
2000
2001

Philco

TV Audio

Philco InfoWay DVD a complete model with Dolby Digital decoder, karaoke feature and MP-3 compatible

In 2001, Philco completed the design standardization of its television range making the products sold under its brand name more readily distinguishable. It also consolidated the Real Flat and InfoWay lines with the 29" Low and High-end 32" Widescreen Multipip, LCD 15" and Plasma 42" screen models. The year also saw the launch of the DV-P2100, complete with DVD, Dolby digital decoder (AC-3) and karaoke feature and the new Platinum TV line of 14", 20" and 20" screen stereo sets, with the latest generation in design and technology.

As with the television line as a whole, these new products were totally developed in Brazil. All have received certification from international bodies such as the Environmental Protection Agency (EPA) – attesting to the energy efficiency of the products – as well as the Federal Communication Commission (FCC), which confirms that the level of electromagnetic emissions and radiation from the electrical circuits accord with internationally acceptable standards. The new product line is also in the final phase of approval by the Underwrite Labs (UL), which certifies the safety of the components , the manufacturing process and the final product.

LCD – TV and monitor for a computer in a single unit

TV 32” Widescreen – the first Widescreen TV in the Brazilian Market

DVD Video

Thanks to investments in its semiconductor production lines, Itaucom was able to begin manufacturing SDRAM DDR memories in 2001.

Semiconductors

Itaucom

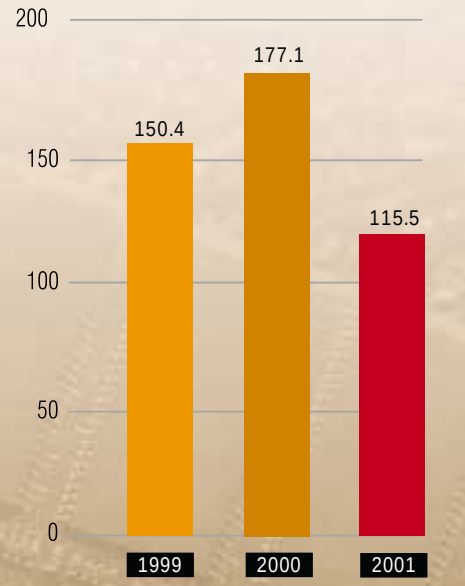
Itaucom is the leader in memory module volume sold to the Brazilian market and the only company in the country to dominate the production technology for chip encapsulation and module assembly.

During 2001, the company's investment in production facilities culminated in the start-up of SDRAM DDR memory manufacture, the architecture of which is likely to dominate the next generation of memories chips. The initial batches of this product will be delivered to the market during the first semester of 2002.

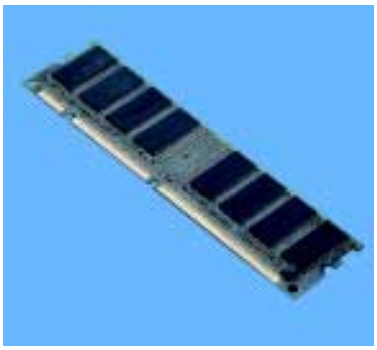
Itaucom also began production of modules for notebooks, printers, servers and the expansion of video memory output. The sale of these modules accounted for 18% of the division's annual sales, indicative of the efficiency with which the company is able to manage and expand its businesses.

EVOLUTION OF GROSS SALES

Philco (R$ millions)



Printed Circuit Boards



Memories produced by Itaucom

Itaucom is the only company in South America with the technology and production capacity to manufacture printed circuit boards principally to supply important sectors such as the car industry, telecommunications and consumer goods (audio and video equipment, information technology hardware, among others). Itaucom's components enjoy international standards of quality and carry ISO 9002 and QS 9000 certification and incorporate state-of-the-art technology and efficiency, a differential which has enabled them to penetrate such markets as the United States, Mexico, Argentina and European countries. In 2001, exports registered 40% of total production.

Printed Circuit Boards

Corporate Governance

Itautec Philco adopts a policy of corporate governance – in compliance with the corporate legislation and the Company's articles of association - the objective of which is transparency, accountability and equality.

The Company's operations are conducted through the following administrative bodies:

Board of Directors

This comprises seven Councilors, of which one is the president, another, the vice-president and five members. The Board members have a one-year mandate, renewable for successive periods. Board meetings are held on a regular quarterly basis and extraordinarily whenever necessary. Among the Board's responsibilities are the establishment of general business guidelines, the election of the executive directors and decisions as to dividend distribution.

Executive Board

The Executive Board is elected by the Board of Directors for a one-year term of office and is eligible for reelection. This body currently comprises one president, five vice-presidents and one executive director who are responsible for putting into effect decisions taken by the Board of Directors and for the day-to-day handling of the company's business. The Executive Board meets four times a month or whenever necessary. Eleven Assistant Directors and a management group of 68 executive officers provide support to the Executive Board.

Transparency and Relations with the Market

Itautec Philco has a policy of continually fine-tuning its relations with the market through meetings and presentations to investment analysts and investors, the object being to disseminate information on the company's operations in the best possible way and clarify questions as to current business activities. In addition, the company has reformulated its corporate site (www.itautec-philco.com.br) to provide a larger and more appropriate amount of information. Currently, the site receives a monthly average of 9,000 visits.

Capital Markets

As from 2001, only Itautec Philco's common shares have been negotiated in the market. During the year, these were traded on more than 90% of the days the São Paulo Stock Exchange was open for business and recording a total turnover of 1.5 million securities, equivalent to R$ 7.1 million in financial movement.

Risk Management

Itautec Philco operates in the following business segments: information technology, automation, the Internet, technical assistance, customer service via call center, consumer electronic and electrical goods, semiconductors and printed circuit boards.

The company operates in the information technology and automation segments under the Itautec brand name. It sells and develops equipment and software in an extremely competitive market, which not only involves several well-known multinationals but also companies, which operated almost entirely through the so-called gray market.

Itautec is the only large Brazilian company that has managed to maintain a foothold in the market following the elimination of barriers to competition from the multinationals. This achievement is thanks to the constant and significant amounts of capital expenditures dedicated to research and development enabling the company to offer its customers the most advanced hard and software systems in the world of Information Technology.

The Company operates under the Philco brand name in the electronic durables segment with its focus on the in-house development and supply of a complete range of high value added sound and vision equipment. This segment has been recovering from the adverse economic environment of 2001 due to electricity rationing and the depreciation of the Real against the dollar. In spite of this unfavorable trading climate, the company made no cuts to its investments in research and development of new products.

Itaucom continues to lead the Brazilian semiconductor segment through the investment in the technological upgrading of its production lines. Adiboard, which operates in the printed circuit board segment, has successfully expanded its share of the auto, telecommunications and electronic consumer goods markets. The company's principal objective has been to increase the penetration of the external market to diversify away from dependence on domestic consumption.

In all these areas, the final products contain a significant participation of imported components, thus making costs vulnerable to foreign exchange rate fluctuations.

Financial Risks

Itautec Philco protects all its dollar liabilities using financial hedge instruments. In addition, the company is always alert to changes in inflation, foreign exchange and interest rates such that it can identify and forecast the likely impacts on its activities and take steps to minimize the possible risks.

Itautec Philco

Board of Directors

President
Olavo Egydio Setubal

Vice-President
José Carlos Moraes Abreu

Councilors
Alfredo Egydio Villela Filho
Jairo Cupertino
Paulo Setubal
Renato Roberto Cuoco
Ricardo Egydio Setubal

Executive Board

President
Paulo Setubal

Vice-Presidents
Cláudio Vita Filho
Gabriel Antonio Marão
Guilherme A. de Castilho
Jesus F. R. Barreiro Boelle
Ricardo Egydio Setubal*

Executive Directors
Raul Penteado

Assistant Directors

Director of Research and New Technologies
Fábio Vitaliano Filho

Director of Personal Computers/Servers
João Neves Fernandes

Director of Automation Services
José Carlos L. de Almeida

Director of Foreign Trade
Lincoln N. Kanamori

Itautec Commercial Director
Waldemar Gimenez Gomes

Philco Commercial Director
Jorge Luiz de Almeida

Philco Industrial Director
José Renato S. Santiago

Itaucom Commercial Director
Toshihiko Komatsu

Materials Director
Armando S. Xavier

Economic Director
Geraldo José B. Amorim

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FINANCIAL STATEMENTS 2001

MANAGEMENT REPORT

December 31, 2001

SCENERY AND MARKET

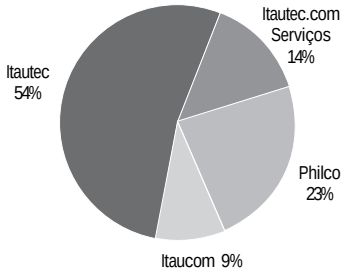
2001 was marked by three events of great relevance: the rationing of electricity in Brazil, the institutional crisis in Argentina and the downturn of the American economy, which reached its peak after the September 11 terrorist attacks. These factors strongly affected the Brazilian economy. In 2001, the devaluation of Real compared to the U.S. dollar was 18.7% and the interest rate (SELIC) ended the year at 19.0% p.a., which increased the downturn in the electroelectronic sector, leading to expressive cuts in production. As a consequence, both industry and retailers presented a significant growth in the inventory levels, increases in costs of imported raw material and, consequently, a reduction in the trade margins.

STRATEGIC MANAGEMENT PLAN (PGE) and PERFORMANCE DURING 2001

Due to the new global reality, the Company adopted the following measures:

- reduction in inventory levels;
- adjustment of personnel; and
- change in the internal systems of Information Technology, focusing more on the strategic areas.

The gross income of sales and services obtained in the year was R$ 1,334.3 million, and presented the following composition:



The most critical period of the year was during the second quarter, when the electricity rationing started, causing a strong retraction in the market, consequently causing the reduction of the trade margins, which can be observed in the table below:

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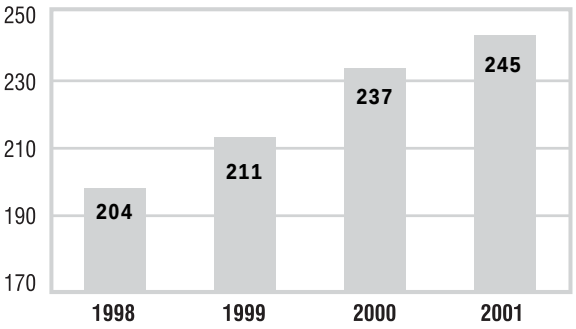
2001 (R$ millions)					
	1Q	**2Q**	**3Q**	**4Q**	**Total**
Total own and third party personnel (number of people)	5,505	5,453	5,255	5,205	-
Inventories	225.3	250.7	223.4	180.2	-
Net Sales	277.2	284.0	281.2	329.2	1,171.6
Gross Profit	45.9	42.2	53.0	71.8	212.9
Net Income (Loss)	6.4	(12.6)	1.0	9.4	4.2

The quarterly results demonstrate the evolution of the measures taken by the Company to face the adverse situations encountered during the year, which, although correct, were insufficient, leading to the obtaining of a consolidated net profit in 2001 of only R$ 4.2 million.

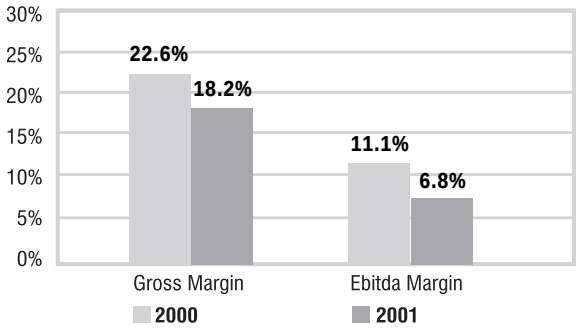
The final net profit already takes into account the impact of R$ 1.4 million loss in the Argentine operations which was calculated taking into account the parity of P$ 1.83/US$ 1.00 (Argentine pesos per dollar), average rate of the financial operations realized by the company in January 2002.

The Company maintained the criteria of allocating in the result 100% of receivables from clients under “creditor protection” (concordata), as well as making 100% hedge on its liabilities in foreign currency.

Net sales per employee (MR$)



Margin



GENERATION OF RESOURCES

In the accumulated result of 2001 the operating generation in cash was R$ 89.8 million, substantially higher than that obtained in the previous year, which was R$ 10.5 million. The accumulated EBITDA in 2001 was R$ 79.8 million.

At the end of 2000, BNDES approved financing of R$ 103.7 million for investments in new products and technology, which enabled the extension of the company debt profile. During the year, R$ 91.1 million was released, equivalent to 85% of the total approved.

RESOURCE APPLICATION PLAN

The Resource Application Plan (PAR) of the Company accumulated, during the period, a total of R$ 148.9 million, distributed as follows:

1) R$ 44.6 million in development of technology and new products;

2) R$ 44.4 million in fixed assets for industrial automation and modernization of the industrial plants;

3) R$ 38.2 million in equipment for location in clients; and

4) R$ 21.7 million in marketing and advertising.

AREAS OF PARTICIPATION

Itautec - Operation

The gross sales of Itautec reached R$ 728.3 million in 2001, with a growth of 9.7% in relation to 2000.

In the microcomputer segment, Itautec lost sales, compared to the previous year, mainly due to the fact that the Brazilian market is dominated, in approximately 65% of its volume, by the "Grey Market". This market is characterized by its informality, both in the acquisition of components through illegal importers and sales without the compatible legal collections. Additionally, this predatory competition does not invest resources in Research and Development (Computer Law 10176, of January 11, 2001).

Itautec, applying its R&D resources, developed, in collaboration with the University of São Paulo, PAD, a supercomputer with parallel multiprocessing technology, used mainly for complex calculations, such as weather forecasts.

Despite the difficulties in the retail sector, it should be highlighted that, in 2001, Itautec was the leader in supplying microcomputers to the corporate segment, in accordance with the market survey done by IDC - International Data Corporation, and **Infoway** was awarded by "Info Exame" magazine as the "Best desktop computer of 2001". **Global Finance (USA)** magazine, in its September edition, elected Itautec as **"The best Computer Hardware company in Latin America".**

The sales of the segment of banking automation grew 27% in relation to the previous year. In December 2001 Itautec participated in BAI (Bank Administration Institute), which is the largest worldwide fair of Banking Automation. Several companies were interested in our products and solutions presented, opening the way for the first negotiations in the american market.

In the segment of commercial automation, Itautec, maintaining its leadership and pioneering in the sector, was awarded distinction by EAN Brasil in the category of "Best Supplier of Terminals for Electronic Transfer of Funds", and its sales from software increased 20% in comparison to 2000.

Development of Technology in the Itautec area

The **WebWay Slim** Terminal was awarded the prize for "Best Design" in the category of Self-Service in the IF-International Forum Design of Hannover, promoted since 1954, and will permit its exhibition at that place, during all of 2002, of this Itautec product, developed and designed with a 100% domestic technology.

Itautec.com Serviços – Operation

The gross sales for the year was R$ 186.8 million, 16.0% higher in comparison to that obtained in 2000, and this increase originates from the greater quantity of products offered.

Among the services that presented greater increase, we highlight those provided in the telecommunications and network areas, through the implementation of 101 thousand high speed ADSL modems for Internet, and of the maintenance of communication links for corporate clients.

In the Internet segment, the billing was 3 times that obtained in the previous year, and the result of this segment reached the break-even point at the end of 2001.

Development of Technology in the area of Itautec.com Serviços

During 2001 we highlight the significant performance in the Internet Security area, including investments in training courses and certification of professionals to meet the demand of security projects of ITAUTEC clients.

Through the seminar "E-business for real companies", in conjunction with Intel, a practical vision of Internet use was shown to the market. The result of these events may be verified in the increase of 168% in the number of visits to the Webway site.

Using the experience acquired in previous years in the development of B2B gateways, in 2001, four important projects were developed, besides the consolidation of the Payment Server software as a facilitating tool for payment of on-line transactions.

Philco – Operation

The gross sales of Philco reached R$ 303.7 million in the accumulated result this year, 6.7% less in comparison to that obtained in 2000. This performance reflects the retraction of the electro-electronic market, which, in the segment of color TV reached 12% in 2001.

Philco started an exportation program of TVs, with 100% domestic technology, to Latin America and the USA, in the OEM (Original Equipment Manufacturer) modality, proving its technological capacity at a worldwide level.

For the implementation of this program, Philco, besides the logistic problems, also had to overcome the bureaucratic difficulties related to exportations.

Development of Technology in the Philco area

We highlight for the period, the launch of the new Platinum 14", 20" and 20"/stereo TV lines, which, like the other products of Philco TV lines, was completely designed and developed in Brazil and obtained the approval of international bodies, such as EPA (Environmental Protection Agency), receiving also the "*ENERGY STAR*" seal, which proves the conscious consumption of energy. This new line also obtained certification from the Federal Communication Commission (FCC), which certifies the level of electromagnetic and irradiation emission by the electric network, and it is also in the final phase of approval by Underwrite Labs (UL), which certifies the security of the components used, of the manufacturing process and of the final product.

In 2001 a new DVD, DV-P2100, was launched, to which has been added a karaoke function, among others, and this option is a very important differential for this product on the market.

Itaucom - Operation

The gross sales of Itaucom reached R$ 115.5 million in 2001, with a drop of 34.8% in relation to the previous year, mainly due to the reduction of 56% in foreign prices of memory. Additionally, there was a drop in volume, due to the increase in imports, arising from the delay in the regulation of the Computer Legislation.

In the segment of printed circuits, there was a retraction in the electro-electronic, automobile and telecommunications markets, causing a significant reduction in the volume of production. However, almost all of the effect of the drop in volume was compensated by the increase in exportation of circuit, which already represented almost 40% of the production volume of this area of the company.

Development of Technology in the Itaucom area

During the period, investments were made in the semiconductors production line, which allowed the start of production of the DRAM DDR memories, a product which presents the architecture that should be dominant for the next generation. The first batches of this product will be arriving in the market during the first semester of 2002.

HUMAN RESOURCES

In 2001, R$ 150.7 million was paid out by way of remuneration and compulsory legal charges to our 4,747 direct employees. Additionally, R$ 21.7 million was invested in dental and medical assistance, meals, transportation and training courses for the technical development and professional formation.

The company successfully concluded the implementation of the Complementary Retirement Plan of Defined Contribution - CD, administered by Fundação Itaúsa Industrial, and more than 90% of the employees, participating in the Defined Benefit Plan - BD (PAC) migrated to the new CD Plan (PAI).

TAXES AND CONTRIBUTIONS

R$ 137.6 million in taxes and contributions were paid to the Local, State and Federal public agencies.

DIVIDENDS

As proposed by the Board of Directors, the payment of Interest on equity was provided for as dividend, in the amount of R$ 3.5 million, which added to the interim dividends already paid in August 2001, amounts to R$ 7.8 million, equivalent to R$ 45.00 per lot of a thousand shares.

ACKNOWLEDGEMENT

We wish to thank our employees for their dedication and the shareholders, clients and suppliers for their confidence in the plans undertaken by Itautec Philco.

São Paulo, February 2002.

The Management

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2001

LAW 6404/76

(In thousands of Reais)

ASSETS	2001	A. V.%	2000	A. V.%
CURRENT	**569,910**	**70.2**	**528,093**	**72.8**
Cash and interest earning bank deposits	216,361	26.6	155,122	21.4
Accounts receivable	127,169	15.7	123,797	17.1
Inventories	180,153	22.2	186,941	25.8
Taxes recoverable	37,375	4.6	54,611	7.5
Other accounts receivable and prepaid expenses	8,852	1.1	7,622	1.0
NON-CURRENT ASSETS	**22,835**	**2.8**	**17,393**	**2.4**
Deposits and other credits	22,835	2.8	17,393	2.4
PERMANENT ASSETS	**219,719**	**27.0**	**180,168**	**24.8**
Investments	127	-	2,507	0.3
Fixed assets	179,422	22.1	163,696	22.6
Equipment for rental	40,068	4.9	13,848	1.9
Deferred expenses	102	-	117	-
TOTAL ASSETS	**812,464**	**100.0**	**725,654**	**100.0**

LIABILITIES	2001	A. V.%	2000	A. V.%
CURRENT	**408,633**	**50.3**	**405,521**	**55.9**
Loans and financing	278,163	34.2	251,108	34.6
Suppliers	50,909	6.3	60,701	8.4
Salaries and related taxes	25,703	3.2	24,437	3.4
Taxes payable	10,286	1.3	14,674	2.0
Provisions and accounts payable	40,086	4.9	45,964	6.3
Interest on shareholders' equity	3,486	0.4	8,637	1.2
NON-CURRENT LIABILITIES	**132,998**	**16.4**	**41,060**	**5.7**
Loans and financing	81,610	10.1	397	0.1
Provisions for contingencies	47,172	5.8	40,663	5.6
Provisions and accounts payable	4,216	0.5	-	-
MINORITY INTEREST	**1,058**	**0.1**	**1,028**	**0.1**
SHAREHOLDERS' EQUITY	**269,775**	**33.2**	**278,045**	**38.3**
Capital	222,360	27.4	220,501	30.4
Advance for capital increase	398	-	398	-
Profit reserves	47,017	5.8	57,146	7.9
TOTAL LIABILITIES	**812,464**	**100.0**	**725,654**	**100.0**

CONSOLIDATED INCOME STATEMENT FOR YEAR ENDING DECEMBER 31, 2001 – LAW 6404/76

(in thousands of Reais)

	2001	A. V.%	2000	A. V.%	A. H.%
GROSS SALES OF PRODUCTS AND SERVICES	**1,334,303**	**113.9**	**1,327,828**	**113.6**	**0,5**
Taxes and contributions	(162,714)	(13.9)	(158,829)	(13.6)	
NET INCOME FROM SALES AND SERVICES	**1,171,589**	**100.0**	**1,168,999**	**100.0**	**0.2**
Cost of goods sold and services rendered	(958,660)	(81.8)	(904,303)	(77.4)	
GROSS PROFIT	**212,929**	**18.2**	**264,696**	**22.6**	**(19.6)**
Selling expenses	(89,816)	(7.7)	(85,226)	(7.3)	
General and administrative expenses	(36,914)	(3.2)	(29,943)	(2.5)	
Research and development expenses and other operating expenses	(47,126)	(4.0)	(46,396)	(4.0)	
OPERATING PROFIT BEFORE FINANCIAL RESULT	**39,073**	**3.3**	**103,131**	**8.8**	**(62.1)**
Financial expenses - Net	(24,537)	(2.1)	(11,248)	(0.9)	
CPMF/IOF/PIS and Cofins on financial income	(9,041)	(0.7)	(6,764)	(0.6)	
OPERATING PROFIT	**5,495**	**0.5**	**85,119**	**7.3**	**(93.5)**
Non-operating expenses - Net	(418)	-	(2.670)	(0.2)	
NET INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	**5,077**	**0.5**	**82,449**	**7.1**	**(93.8)**
Income and social contribution taxes	(572)	(0.1)	(18,092)	(1.5)	
Statutory interest	(236)	-	(3,609)	(0.3)	
Minority interest	(71)	-	(599)	(0.1)	
NET INCOME FOR THE YEAR	**4,198**	**0.4**	**60,149**	**5.2**	**(93.0)**

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR YEAR ENDING DECEMBER 31, 2001 – LAW 6404/76

(in thousands of Reais)

	2001	2000
SOURCES OF FUNDS	**141,358**	**90,216**
Net profit for the year	4,198	60,149
Depreciation and amortization	40,773	27,553
Residual cost of assets disposed/written off	2,519	1,915
Minority interest	71	599
FUNDS PROVIDED BY OPERATIONS	**47,561**	**90,216**
THIRD PARTY FUNDS	**93,797**	-
Increase in non-current liabilities	91,938	-
Share subscription	1,859	-
APPLICATION OF FUNDS	**102,653**	**90,744**
Increase in non-current assets	5,442	1,670
Reduction in non-current liabilities	-	4,671
Acquisition of investments	25	2,379
Acquisition of fixed assets	44,400	44,430
Rental of equipment	38,234	13,534
Increase in deferred assets	184	-
Dividends	7,884	17,842
Net variation in minority interest	-	6,218
Adjustment of prior year	6,484	-
CHANGES IN NET WORKING CAPITAL	**38,705**	**(528)**
STATEMENT OF CHANGE IN NET WORKING CAPITAL		
At the beginning of the year		
Current assets	528,093	423,204
Current liabilities	405,521	300,104
Change	**122,572**	**123,100**
At the end of the year		
Current assets	569,910	528,093
Current liabilities	408,633	405,521
Change	**161,277**	**122,572**
INCREASE (DECREASE) IN WORKING CAPITAL	**38,705**	**(528)**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDING DECEMBER 31, 2001

(in thousands of Reais)

		2001		2000
NET INCOME FOR THE YEAR		**4,198**		**60,149**
Depreciation and amortization	+	40,773	+	27,553
Interest and foreign exchange variation charge	+	38,749	+	22,350
Provisions and disposal of permanent assets	+	(5,563)	+	22,161
SUBTOTAL		**78,157**		**132,213**
Accounts receivable	+	4,138	-	59,380
Inventories	+	1,557	-	85,935
Other accounts receivable and prepaid expenses	+	18,595	+	2,807
Non-current assets	-	1,793	-	2,470
Suppliers	-	9,792	+	27,860
Salaries and related taxes	-	1,660	+	2,835
Taxes and accounts payable	-	1,895	-	6,045
Provisions and accounts payable	+	2,528	-	1,164
Non-current liabilities	-	2	-	237
Reduction/(increase) in working capital	+	**11,676**	-	**121,729**
CASH GENERATED FROM OPERATING ACTIVITIES		**89,833**		**10,484**
Acquisition of permanent assets	-	44,609	-	44,430
Rental of equipment	-	38,234	-	13,534
Interest on equity (TJLP) and dividends	-	13,037	-	15,237
Second installment of acquisition of Itec's shares	-	4,090	-	4,500
SUBTOTAL		**(10,137)**		**(67,217)**
Financing				
Additions	+	340,844	+	240,692
Amortization	-	271,327	-	211,369
Capital increase	+	1,859		-
INCREASE (DECREASE) IN CASH FOR THE PERIOD		**61,239**		**(37,894)**
AT BEGINNING OF YEAR		**155,122**		**193,016**
AT END OF YEAR		**216,361**		**155,122**

CONSOLIDATED STATEMENT OF ADDED VALUE FOR THE YEAR ENDING DECEMBER 31, 2001

(in thousands of Reais)

		2001		2000
REVENUES		**1,334,303**		**1,327,828**
Allowance for bad debts	-	3,030	-	4,777
Supplies purchased from third parties	-	948,774	-	934,338
GROSS VALUE ADDED		**382,499**		**388,713**
Depreciation and amortization	-	40,773	-	27,553
NET VALUE ADDED		**341,726**		**361,160**
Financial income and non-operating	+	57,667	+	23,597
VALUE ADDED FOR DISTRIBUTION		**399,393**		**384,757**
DISTRIBUTION OF VALUE ADDED				
Remuneration to the labor force		161,894		135,252
Taxes due to the government		149,249		151,242
Debt financing costs		82,622		37,515
Remuneration to the shareholders		7,843		17,273
Remuneration of minority interest		71		599
Transfer to reserve		(2,286)		42,876
TOTAL VALUE ADDED DISTRIBUTED		**399,393**		**384,757**

EXPLANATORY NOTES FOR THE FINANCIAL YEAR 2001

(in thousands of reais - R$ and thousands of U.S. dollars - US$)

NOTE 1 – OPERATIONAL CONTEXT

Itautec Philco is a Company controlled by the Group Itaúsa. Its headquarters are located in Manaus - AM and it has three industrial units in Brazil, maintaining branches in the main Brazilian cities, a branch office in Argentina and subsidiaries in the United States and Portugal.

Itautec Philco and its subsidiaries operate through four divisions, Itautec, Itautec.com Serviços, Philco and Itaucom, each one with its own industrial unit, responsible for production and commercialization of the following products:

- Itautec Division: IT equipment/software programs;
- Itautec.com Serviços Division: Net project, basic infrastructure, technical support, installation service and businesses regarding to the Internet;
- Philco Division: consumer electronics;
- Itaucom Division: semi-conductors and printed circuit boards.

NOTE 2 – PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements were prepared in accordance with the Brazilian Corporation Law and regulations of the Brazilian Securities Exchange Commission (CVM).

Significant accounting policies:

a) Interest earning bank deposits are recorded at cost, plus income accrued to the balance sheet date.

b) The assets and liabilities that are subject to exchange variations are adjusted using the buy or sell exchange rates (R$ 2.3196 or R$ 2.3204) in effect at the end of the period. The amounts that are reported in U.S. dollars, for purposes of additional information, were calculated by translating the amounts in reais using the rate in effect on the last day of the year of R$ 2.3204 per dollar, in effect on the last business day of the period.

c) The provision for doubtful accounts is calculated at an amount considered adequate to cover any losses arising on collection of accounts receivable, and was based on an analysis of guarantees and risks related to the realization of these credits.

d) Inventories are stated at the lower of average historical purchase or production cost, which does not exceed market value.

e) Investments in subsidiaries and associated companies are valued using the equity method, as shown in Note 8. Other investments are valued at cost, price-level restated up to December 31, 1995, less a provision for devaluation, when applicable.

f) Property, plant and equipment are recorded at the cost of acquisition, formation or construction, price-level restated up to December 31, 1995. Depreciation and amortization are calculated using the straight-line method at rates which take into account the estimated useful lives of the assets.

g) Deferred expenses relate to pre-operating costs, which are amortized over five years.

h) Income tax is calculated at the rate of 15% of taxable income, plus a 10% Surtax and Social Contribution tax is calculated ate the rate of 9% of adjusted taxable income.

NOTE 3 - CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the financial statements of Itautec Philco S.A. and its subsidiaries, as demonstrated in Note 8.

a) Description of main consolidation procedures

1. Elimination of asset and liability, revenue, cost and expense account balances between consolidated companies;
2. Elimination of participation in capital, reserves and retained earnings of controlled companies;
3. Demonstration of minority ownership in the consolidated financial statements.

b) Gross sales less inter-company operations

Company	Core business	Gross revenue	
		2001	**2000**
Itautec Philco S.A.	IT Products, Help Desk for Customers; Semiconductors and Consumer Electronic Products	914,994	862,927
Itautec.com Serviços S.A.	IT Services and Resale of Equipment	198,933	306,769
Adiboard S.A.	Printed Circuit Boards	50,045	52,841
Itautec Informática S.A.	Equipment Rentals	68,126	28,118
Itec S.A.	IT Products	36,923	37,629
Itautec América, Inc.	Foreign Operations	22,977	20,564
Trend Shop S.A.	Resale	37,479	18,980
Banctec Informática S.A.	IT Products and Services	4,826	-
Consolidated		**1,334,303**	**1,327,828**

NOTE 4 – ACCOUNTS RECEIVABLE

	CONSOLIDATED	
	2001	**2000**
Domestic	184,549	189,775
Foreign	3,334	2,246
Provision for doubtful accounts	(60,714)	(68,224)
TOTAL	**127,169**	**123,797**

NOTE 5 – INVENTORIES

	CONSOLIDATED	
	2001	**2000**
Finished products	71,453	70,243
Good in process	8,973	10,075
Raw materials	94,488	82,548
Imports in process	5,239	24,075
TOTAL	**180,153**	**186,941**

NOTE 6 – TAXES RECOVERABLE

	CONSOLIDATED	
	2001	**2000**
Withholding income tax on short term Investments	12,631	20,693
Added value sales tax (ICMS)	9,699	14,285
Income tax and social contribution tax	9,182	7,324
Excise tax - IPI	5,863	12,309
TOTAL	**37,375**	**54,611**

NOTE 7 – DEPOSITS AND OTHER CREDITS

	CONSOLIDATED	
	2001	**2000**
Deferred taxes	10,460	6,950
Judicial deposits - labor	1,771	2,705
Judicial deposits - tax	5,820	5,351
ICMS on fixed assets	1,966	-
Other	2,818	2,387
TOTAL	**22,835**	**17,393**

NOTE 8 – INVESTMENTS IN SUBSIDIARIES

Investments that are accounted for using the equity method present the following numbers:

(In thousands of Reais)

COMPANIES	Capital	Percentage Ownership Value	%	Adjusted Shareholders' Equity	Equivalent Book Value	Adjusted Investment	Equity Interest	Net income (Loss)
Itautec Informática S.A.	85,750	84.893	99.0	105,373	104,320	97,660	6,660	6,711
Adiboard S.A.	58,149	58,148	99.9	44,882	44,882	52,885	(8,003)	(8,003)
Itautec.com Serviços S.A.	25,765	25,765	99.9	48,838	48,838	44,941	3,897	3,449
Itec S.A.	9,000	9,000	100.0	18,273	18,273	14,995	3,278	3,263
Trend Shop S.A.	12,931	12,931	99.9	9,976	9,976	12,794	(2,818)	(2,818)
Itautec América, Inc.	3,272	3,272	99.9	6,393	6,393	4,968	1,425	240
Banctec Informática S.A.	1,362	1,362	100.0	1,194	1,194	977	217	134

The subsidiaries of Itautec Philco adopted uniform criteria for the preparation of their financial statements, except for the foreign subsidiaries (Itautec América Inc., and Banctec Informática S.A.), which was consolidated using the financial statements of November 30, 2001 and which were translated using the exchange rate in effect at the end of the year. Financial statements dated December 31, 2001 were used for all other subsidiaries.

On September 30, 2000 Itautec Philco purchased IBM Brasil's interest in the capital of Itec S.A. increasing its participation in Itec S.A's capital to 100%. Goodwill of R$ 2,379 (US$ 1,217) was paid on this transaction which will be amortized based on the generation of future profits by Itec S.A.

Due to the profitability presented by the Company, from the acquisition date until March 31, 2001, we performed comprehensive amortization of this goodwill, presenting it in "Other operating expenses".

On April 27, 2001, Itautec Philco S.A. acquired from Itausa Portugal, 100% of the shares of Banctec Informática S.A. at book value, generating neither goodwill nor discount in the operation.

Provision for guarantee and prior-year adjustment:

In January 2000 Itautec Philco S.A. introduced a new guarantee policy for its products from the Itautec area, changing the standard guarantee term from 3 to 12 months, offering extended guarantee plans which may reach 36 months. This guarantee is provided by its comprehensive subsidiary Itautec.com Serviços S.A. Consequently, the methodology of calculation and accounting of the operation of "Provision for guarantee cost" of Itautec products changed.

As a consequence, on December 31, 2000 the Company evaluated the investment at Itautec.com Serviços S.A. through the equity method, adjusting the net equity of the subsidiary, based on transactions related to those guarantees performed with the parent company, but which, at that date, had still not passed through the result and, consequently, were not part of the net equity of the subsidiary. The adjustment in equity includes amounts related to the result of future years in the subsidiary and which, therefore, should not be made.

NOTE 9 – FIXED ASSETS

	Consolidated				
	2001				2000
	Annual Depreciation Rates	Historical Cost	Depreciation	Residual Value	Residual Value
Land	-	11,897	-	11,897	11,897
Buildings	4%	74,218	(29,409)	44,809	47,566
Machineries and equipments	10%	111,725	(58,854)	52,871	43,145
Facilities	10%	45,322	(25,835)	19,487	20,495
Computer equipment	20%	21,607	(14,225)	7,382	7,588
Work in progress	-	23,922	-	23,922	17,120
Others	4% to 20%	32,239	(13,185)	19,054	15,885
Total	**-**	**320,930**	**(141,508)**	**179,422**	**163,696**

NOTE 10 – EQUIPMENT FOR RENTAL

	Consolidated				
	2001				2000
	Annual Depreciation Rates	Historical Cost	Depreciation	Residual Value	Residual Value
Total	In accordance with rental contract*	**65,759**	**(25,691)**	**40,068**	**13,848**

(*)The minimum term for the contract is 12 months and the maximum is 48 months.

NOTE 11 – FINANCIAL INSTITUTIONS

Type	Cost	Amortization	Collateral	Current	Non-current	Total
BNDES	TJLPI + 3.5% p.a.	Monthly and quarterly	Mortgage and guarantee of payment	10,783	70,341	81,124
FINAME	TJLPI + 3.3%p.a.	Monthly	Statutory lien and promissory note	163	249	412
			LOCAL CURRENCY	**10,946**	**70,590**	**81,536**
EXTERIOR	US$ + Libor + (0.7 to 2.125% p.a.)	Semi-annual	Promissory note/ Guarantee of payment	265,204	-	265,204
BNDES	Exchange variance + 3.5% p.a.	Monthly and quarterly	Mortgage and guarantee of payment	2,013	11,020	13,033
			FOREIGN CURRENCY	**267,217**	**11,020**	**278,237**
			CONSOLIDATED	**278,163**	**81,610**	**359,773**

NON-CURRENT AMORTIZATION						
YEAR	**2003**	**2004**	**2005**	**2006**	**2007**	**TOTAL**
Local Currency	19,255	19,175	19,097	19,093	4,990	81,610

NOTE 12 – PROVISION AND ACCOUNTS PAYABLE

	CONSOLIDATED	
	2001	**2000**
Provision for research and development	-	10,217
Provision for guarantee	13,798	11,895
Provision for advertising	2,026	2,164
Accounts payable IBM – Acquisition Itec	-	4,090
Royalties – Microsoft	12,727	8,379
Freight and international insurance	535	2,122
Other provision and accounts payable	11,000	7,097
TOTAL	**40,086**	**45,964**

NOTE 13 – CONTINGENCIES

The Company and its subsidiaries have lawsuits in process, of a labor, civil and tax nature, originating from the normal course of its business.

The respective provisions for contingencies were constituted considering the estimate made by legal advisors, for lawsuits which loss possibility was evaluated as probable. Judicial deposits were made when necessary.

Company Management believes that the constituted provision for contingencies, as demonstrated below, is sufficient to cover possible losses with the lawsuits.

	CONSOLIDATED	
	2001	**2000**
Tax suits	36,213	30,581
Labor suits	10,182	10,082
Civil suits	777	-
TOTAL	**47,172**	**40,663**

NOTE 14 – CAPITAL AND DIVIDENDS

The authorized capital of Itautec Philco S.A. comprises 900,000,000 shares, 300,000,000 of which are common shares and 600,000,000 preferred shares. The subscribed and paid-in capital, in the amount of R$ 222,360, is represented by 174,296,078 ordinary shares with no par value. The Company's articles require that 5% of net income be used in the constitution of the Legal Reserve and 25% for the distribution of the compulsory minimum dividend, and the remaining balance transferred to Profit Reserves until the limit of 80% of the Capital.

Dividends - The Board of Directors decided to pay Interest on Shareholders' equity as a dividend, in the amount of R$ 3,486, which, added to the portion already paid in August 2001, amounted to R$ 7,843, equivalent to R$ 45.00 per lot of a thousand shares.

NOTE 15 – RELATED PARTIES

Transactions with related parties are carried out at normal market prices and terms. The amounts relative to operations involving companies included in the consolidation process have already been eliminated from the consolidated financial statements.

Transactions with related parties mainly result from sales and rental of equipment, which were not eliminated on consolidation and can be summarized as follows:

	CONSOLIDATED	
	Assets	**Revenue**
Sales, rentals and services		
Banco Itaú S.A.	16,029	265,697
Banco Banerj S.A.	588	11,100
Cia. Itauleasing de Arrendamento Mercantil	128	6,916

NOTE 16 – INCOME AND SOCIAL CONTRIBUTION TAXES

a. Income and social contribution taxes on net income apportioned in the result for the year may be demonstrated as follows:

	CONSOLIDATED	
	2001	**2000**
Profit before income and social contribution taxes:	**5,077**	**82,449**
Income and social contribution taxes on income at the rates of 25% and 9% respectively	(1,726)	(28,033)
Income and social contribution taxes on additions and exclusions to the result	1,154	9,941
Provisions temporarily non-deductible	1,980	1,334
Tax losses/Compensations for the year	(7,722)	4,235
Interest on shareholder's equity	4,122	4,987
Statutory participations	(21)	(437)
Deferred taxes constitution/reversal	3,511	(917)
Other additions and exclusions	(716)	739
Income and social contribution taxes for the year	**(572)**	**(18,092)**

b. The income tax and social contribution tax assets were calculated on timing differences. The related tax credits were recorded in accordance with the likelihood of offsetting future taxable income.

The balances of deferred income tax and social contribution, classified in the non-current asset are as follows:

	CONSOLIDATED	
	2001	**2000**
Income tax	7,798	5,193
Social contribution	2,662	1,757

Tax losses (R$ 218,851) and temporary differences (R$ 97,745), that did not qualify for recognition in the deferred tax asset, are supported by the text of deliberation CVM 273 and are mainly derived from the Parent Company.

NOTE 17 – FINANCIAL INSTRUMENTS

The carrying values of the most significant financial instruments that are included in the balance sheet closely approximate their corresponding market values which could be obtained if the instruments were traded on an active market, or in the absence thereof, their net present values adjusted on the basis of the prevailing market interest rate.

It is the Company's policy to eliminate market risks by avoiding assuming positions exposed to variations in market values and by operating only with instruments which allow control of risks. The Company entered into swap operations, amounting to R$ 205,332 , to hedge foreign currency balances, foreign suppliers, and import financing operations, protecting them against exchange risk. The results of these contracts have been recognized in the Company's accounting records.

NOTE 18 - STOCK OPTION PLAN

Itautec Philco S.A. implemented in 1999 a plan for the Granting of Stock Options, with the objective of integrating executives in the development process of the company in medium and long term, allowing their participation in the valorizations that their work and dedication has brought to the Company shares.

The price determined for the granting of the stock options is based on the average quotation of the share prices of Itautec Philco, on the Stock Exchange, comprising the minimum period of 1 (one) and the maximum of 12 (twelve) months prior to the date of the issue of the options. At the criteria of the Stock Options Committee, an adjustment in the average price is also allowed up to 50% more, or less.

The accounting recognition occurs at the moment of the exercising of the option for the granting of the shares.

Until December 31, 2001, 5,165,000 shares were granted, and 1,562,500 shares were paid up in the year, at R$ 1.19 each.

NOTE 19 – PRIVATE PENSION PLAN

Itautec Philco and its subsidiaries are sponsors of Fundação Itaúsa Industrial, formerly Aricanduva Previdência S/C, a nonprofit entity, with its by-laws approved by Administrative Rule MPAS 862, on May 18, 2001, and which has the objective of implementing and managing private plans for concession of benefits of annuity or complementary income or similar to those of Social Security. The Entity manages a Defined Benefit Plan (BD) and Defined Contribution Plan (CD).

Defined Benefit Plan (BD)

The BD has the basic objective of granting benefits, which, in the form of a lifelong income, will complement the retirement pension paid by the social security. The liability calculated in accordance with the actuarial technical report is completely covered, considering all the technical risks reserves, both expired and not expired.

As from July 31, 1994 there was no admission of new participants and on December 31, 2001 there were 132 participants and 97 were working.

As required by CVM Deliberation 371, Fundação verified an actuarial excess of R$ 14,606 thousand, through actuarial valuation, applying the credit projected method, computed by an independent actuary.

The parent company and its subsidiaries opted for the non-recording of this amount in its assets, as foreseen in the aforementioned CVM Deliberation, due to the fact the this resource belongs to Fundação, and there is no reason for its devolution, which would result in a nonrealized asset from the sponsors.

The main data that reflect the situation of the plan at the balance sheet date are demonstrated below:

Retirement plan	
Fair value of the assets of the plan	43,887
Present value of the actuarial liability	(29,281)
Excess coverage	**14,606**
Actuarial profit estimated in 2002	
Income expected on assets	5,799
Cost of the net current service	(1,113)
Interest on actuarial liability	(2,638)
Actuarial superavit	**2,048**
Economic Assumptions	
Discount rate	9.20% p.a.
Investment return rate	13.40% p.a.
Salary growth	11.30% p.a.
Benefit readjustment	INPC

Defined Contribution Plan (CD)

The CD plan was introduced in 2001 and offered to all employees, which were, whether in the BD plan or not. In the disclosure campaign, initiated on June 2001, all employees were invited to attend seminars on the new plan and had until September to decide, spontaneously, their option. Of the 1,352 participants of the BD-PAC plan, 1,255 migrated to the new CD-PAI plan, and only 97 remained in the previous plan, representing a "record" migration of more than 90%. The employees hired as from October 1, 2001 can only opt to participate in the CD plan. At December 31, 2001 this plan had 3,512 participants and 3,470 were working. We demonstrate below the initial position in May 2001 and the current position at December 31, 2001:

	PLAN			
EMPLOYEES	**CD-PAI**	**BD-PAC**	**NO PLAN**	**TOTAL**
INICIAL POSITION - MAY 31, 2001	-	1,352	3,654	5,006
CURRENT POSITION - DECEMBER 31, 2001	3,470	97	1,180	4,747

There is no actuarial risk in the CD - PAI plan, and the investment risk is that of the participants in the plan.

The regulation in force foresees the contribution of the sponsors, however, due to the existence of sufficient funds, there was no disbursement in the current year.

NOTE 20 – GUARANTEES

Guarantees given represent guarantees on "vendor" contracts and leasing, totaling R$ 28,074 (US$ 12,099) - Consolidated.

NOTE 21 – INSURANCE

The amount of insurance is determined and contracted for on the basis of technical analyses. The amounts are considered sufficient by the Company's management to cover losses resulting from damages and losses to goods, fixed assets, and inventories.

INDEPENDENT AUDITORS' REPORT

To
The Board of Directors and Shareholders
Itautec Philco S.A. – Grupo Itautec Philco
Manaus – AM

We have examined the balance sheets of Itautec Philco S.A. - Grupo Itautec Philco and the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2001 and 2000 and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.

Our examinations were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company and its subsidiaries, (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by management of the Company and its subsidiaries, as well as the presentation of the financial statements taken as a whole.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Itautec Philco S.A. - Grupo Itautec Philco and the consolidated financial position of the Company and its subsidiaries as of December 31, 2001 and 2000, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in conformity with accounting practices derived from the Brazilian Corporation Law.

Our examinations were performed with the objective of expressing an opinion on the financial statements taken as a whole. The consolidated statements of cash flows and value added are supplementary to the aforementioned financial statements and have been included to facilitate additional analysis. These supplementary information were subject to the same audit procedures applied to the aforementioned financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the financial statements taken as a whole.

February 22, 2002

Auditores Independentes
CRC SP-14428"S"AM

Adelino Dias Pinho

Accountant CRC SP-097869/S-AM

Supervisory Board

President

Olavo Egydio Setubal

Vice-President

José Carlos Moraes Abreu

Counselors

Alfredo Egydio Arruda Villela Filho

Jairo Cupertino

Paulo Setubal

Renato Roberto Cuoco

Ricardo Egydio Setubal

Board of Directors

President

Paulo Setubal

Executive Vice-Presidents

Cláudio Vita Filho

Gabriel Antonio Marão

Guilherme Archer de Castilho

Jesus Francisco Ramon Barreiro Boelle

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